

Section 337 as a Remedy for Counterfeit and Gray Market Imports



Section 337 of the Tariff Act of 1930 makes unlawful the importation into the United States of articles that infringe a valid U.S. patent, trademark, copyright, or mask work. Nearly 40 trademark, trade dress, or Lanham Act complaints have been filed at the United States International Trade Commission (“ITC” or “Commission”) under Section 337 during the past decade, developing significant precedent for the various trademark-related causes of action arising in Section 337 investigations. Most of these cases resulted in settlements or exclusion orders.

MULTIPLE CAUSES OF ACTION ARE AVAILABLE IN SECTION 337 INVESTIGATIONS

A company suffering from unfair import competition can pursue claims for infringement of registered trademarks, including counterfeiting and gray market goods provided that it make significant or substantial investments in the United States. It also can pursue any other Lanham Act or trademark-related unfair methods of competition and unfair acts in the importation of articles into the United States that injure or threaten to injure a U.S. industry (e.g., false advertising, false marketing, false designation of origin, and common law trademark infringement).



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JURISDICTION

The Commission has in rem jurisdiction over the imported articles. Personal jurisdiction over infringers is not necessary to bring a complaint under section 337. In rem jurisdiction eliminates significant procedural hurdles during the initial stages of the investigation.

EXPEDITED PROCESS/DISCOVERY

Section 337 investigations proceed quickly, and discovery is readily available. Even foreign discovery is available at the Commission. The following graphic is a rough timeline for a 337 investigation.



REMEDIES

Remedies provided by the Commission as part of Section 337 investigations include the following.

- **Exclusion Orders (Limited and General)**

Under a limited exclusion order, U.S. Customs and Border Patrol (“CBP”) is ordered to exclude infringing articles that originate from a specified firm that was a respondent in the Commission investigation.

A general exclusion order is “good against the world,” and CBP is ordered to exclude all infringing articles, without regard to source.

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- Managing IP, 2022

Partner **Jeffrey Telep** is the past President of the ITC Trial Lawyers Association and is a recognized International Trade Section 337 practitioner by Chambers USA 2022.

- **Cease & desist orders**

If it issues a cease and desist order, the Commission directs the respondent to cease its unfair acts, including selling imported articles from inventory that are already in the United States, advertising, marketing, etc. Cease and desist orders can even apply to third parties holding inventory on behalf of a respondent. Civil penalties of either \$100,000 per day or twice the domestic value of the goods imported or sold, whichever is higher can be imposed for violations of cease and desist orders.

While the Commission cannot award monetary damages (i.e., lost profits or reasonable royalties), effectiveness of exclusion orders and cease and desist orders in disrupting supply chains provides strong incentives for infringers to settle before any orders are issued and provides leverage during royalty and licensing discussions.

THE ITC AFFORDS THE MOST EFFECTIVE RELIEF

The ITC provides a number of advantages over a district court action for counterfeit or gray market goods importers. First, as shown above, the ITC usually completes its investigations within 16 months after institution of the investigation. By contrast, district court cases typically take several years. Of course, a district court action for damages also can be commenced simultaneously with the filing of an ITC complaint.

Second, the ITC has nationwide jurisdiction and allows foreign discovery. By contrast, district court plaintiffs are frequently constrained in their ability to secure foreign discovery and have to navigate complicated jurisdiction and venue issues.

Our lawyers have been recognized in: *Chambers USA, Corporate Counsel's "Who Represents America's Biggest Companies?," IP Law & Business Magazine, The Best Lawyer's in America, Washington Super Lawyers, Legal 500, The International Who's Who of Business Lawyers (Patents & Trademarks), Euromoney Publications' Guide to the World's Leading Patent Law Experts, Montclair Who's Who Directory of Industry Leaders from Around the World, and Intellectual Property Today.*

Third, the ITC has extraordinarily broad remedial powers. Although district courts have the authority to issue a preliminary injunction, such an injunction is frequently difficult to obtain, particularly when the trademark infringement has been ongoing for years. By contrast, the ITC can issue a limited exclusion order that excludes from entry into the U.S. counterfeit or gray market goods imported by the named respondents. Moreover, unlike a district court, the ITC can issue an in rem general exclusion order against all counterfeit or gray market goods irrespective of whether the importer is named as a respondent in the investigation. This is particularly useful when counterfeit or gray market goods are bought and sold multiple times before entering the United States. These broad remedial powers are designed to prevent circumvention by distributors who disappear at the conclusion of the investigation only to reappear as a different entity that continues to import counterfeit or gray market goods.

The ITC also provides a superior remedy to Customs' trademark enforcement regime. First, as a practical matter, Customs' resources are limited, and its top priorities are counter-terrorism and immigration. International trade violations frequently are not enforced vigorously. Unless the trademark owner advises Customs of a specific shipment that includes infringing goods, it is unlikely Customs will stop the goods from entering the United States.

Second, Customs would be required to adjudicate whether legitimate trademarked goods and gray market goods are materially different. Although Customs has the authority to adjudicate whether imported goods are counterfeit or gray market, it is ill-suited to do so. By contrast, the ITC possesses this expertise and adjudicates these issues all the time.

King & Spalding's Section 337 team has prosecuted or defended over 35 cases at the ITC, including gray market goods cases, which resulted in exclusion orders against infringing imports for the benefit of our clients. Our depth of capability across intellectual property, international trade, and government affairs, allows us to successfully represent clients on counterfeit or gray market goods related to Section 337. Please advise if you would like a complimentary discussion on strategies around Section 337 investigations that may be of benefit to your business.

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Third, the ITC's exclusion orders and cease and desist orders can be readily and vigorously enforced, even after the goods have been imported. The ITC also has authority through its cease and desist order to prevent any further distribution in the U.S. of existing inventory and can impose substantial fines against the distributor for violations. By contrast, Customs' remedies principally lie at the border and are enforced on a port-by-port basis. Once an illegal shipment enters the U.S., Customs is usually unable to take effective action. Although Customs also has penalty authority for trademark violations, it typically exercises its authority solely by seizing and forfeiting counterfeit or gray market goods.

ADVANTAGES OF SECTION 337

- In rem jurisdiction over the products; no service, personal jurisdiction, subject matter jurisdiction, or venue issues
- Multiple respondents common — America Invests Act (AIA) joinder rule is not applicable
- Extremely expedited proceedings: approximately nine months to hearing and 16 months to an exclusion order
- Discovery begins immediately on institution of investigation, and responses to discovery are due within only 10 days; foreign discovery is common
- Nationwide subpoena power over third parties
- Evidentiary rules are governed by the Administrative Procedure Act and are relaxed compared with the Federal Rules of Civil Procedure
- Bench trials, direct testimony is frequently by witness statement in lieu of live testimony
- Injunctive-like relief is granted without the four-factor eBay analysis

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